85-32

No.

Office-Supreme Court, U.S.
FILED
JUL 3 1985
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

C & C METAL PRODUCTS CORP. and
DEFIANCE BUTTON MACHINE COMPANY, INC.,

Petitioners,

—against—

DEFIANCE BUTTON MACHINE COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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QUESTIONS PRESENTED

1. Did The Second Circuit Court Of Appeals Err In Refusing To Apply The Clear Meaning Of "Abandonment" In The Trademark Statute [15 U.S.C. Sec. 1127(b)] To A Situation Where The Course Of Conduct Of Respondent In Selling Its Equipment, Inventory And Raw Material, In Offering Its Factory For Sale, In Discharging Its Manufacturing Employees, In Publicly Announcing Its Discontinuance Of Manufacturing Activities, And In Failing To Use Its Trademark For Well Over Two Years, Caused The Trademark To Lose Its Significance As An Indication Of Origin, By Holding That The Statutory Definition Of "Abandonment" Applied Primarily To Generic Marks?
2. Did The Second Circuit Court Of Appeals Err in Disregarding The Clear

Meaning Of The Trademark Statute [15 U.S.C. Sec. 1060] And Established Case Law Which Prohibit The Transfer Of A Trademark "In Gross", Where Respondent's Trademark Became Separated From Respondent's Physical Assets, Where All of Respondent's Business Operations Ceased, And Where Respondent Made No Use Of Its Mark For Over Two Years, By Holding That The Trademark Was Not Abandoned And Could Be Transferred After The Goodwill Of The Mark Had Evaporated?

PARTIES TO THE PROCEEDING BELOW

C & C Metal Products Corp. and Defiance Button Machine Company, Inc. (defendants-appellees) and Defiance Button Machine Company (plaintiff-appellant) were the parties to the proceeding in the court whose judgment is sought to be reviewed. Defiance Button Machine Company, Inc. changed its name to Defiance Button Corp. in 1984, and changed its name to Nordhoff Button Corp. in 1985.

The following entities are affiliates and/or subsidiaries of petitioners: Metal City Findings Corp., Amershoe Corp., C & C Amershoe International Corp., Margola Import Corp. and Nordhoff Realty Associates.

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C & C METAL PRODUCTS CORP. and
DEFIANCE BUTTON MACHINE COMPANY, INC.,

Petitioners,

v.

DEFIANCE BUTTON MACHINE COMPANY,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioners C & C Metal Products Corp. and Defiance Button Machine Company, Inc. respectfully pray that a writ of certiorari issue to review the judgment and opinion of the United States

Court of Appeals for the Second Circuit entered on April 4, 1985.

OPINIONS BELOW

The opinion of the Court of Appeals (App., infra, 1 to 24) is reported at 759 F.2d 1053. The opinions of the District Court (App., infra, 25 to 46) are unreported.

JURISDICTION

The judgment of the Court of Appeals was entered on April 4, 1985. Jurisdiction of this Court is invoked under 28 U.S.C. Sec. 1254(1).

STATUTE INVOLVED

Section 45(b) [15 U.S.C. Sec. 1127(b)] and Section 10 [15 U.S.C. Sec. 1060] of the Trademark Act of 1946 are involved in this appeal. The pertinent parts of those sections, are reproduced as follows:

Sec. 1127. Construction and definitions; intent of chapter [Section 45]

In the construction of this chapter, unless the contrary is plainly apparent from the context -

A mark shall be deemed to be "abandoned" -

(b) When any course of conduct of the registrant, including acts of omission as well as commission, causes the mark to lose its significance as an indication of origin.

Section 1060. Assignment of mark; execution; recording; purchaser without notice [Section 10]

A registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark, and in any such assignment it shall not be necessary to include the goodwill of the business connected with the use of and symbolized by any other mark used in the business or by the name or style under which the business is conducted...

STATEMENT OF THE CASE

1. Factual Recitation

The factual recitation is contained in detail in the findings of fact of the District Court (App., 25 to 35) and may be summarized, as follows:

Petitioner C & C Metal Products Corp. ("C & C"), located in Engelwood, New Jersey, is in the business of manufacturing and selling buttons and button parts. Petitioner Defiance Button Machine Company, Inc. ("Defiance-New Jersey"), a New Jersey corporation, is a wholly-owned subsidiary of C & C.*

Respondent Defiance Button Machine

*Prior to trial of this action, Defiance-New Jersey had changed its name to "Defiance Button Corp". Pursuant to the recent judgment of the District Court, entered after remand from the Court of Appeals, Defiance-New Jersey changed its name to "Nordhoff Button Corp." However, for the purposes of this petition, the designation "Defiance-New Jersey" will still be used.

Company ("Defiance-New York") is a New York corporation, formerly having an office in Long Island City, New York, and now located in Woodside, Queens, New York. Defiance-New York was formed in 1886 for the manufacture and sale of buttons, button parts, button molds and attachment machines.

In the late 1970's, Defiance-New York's business fortunes took a down turn, due to economic conditions in the furniture market, and also attributable to a cash flow problem which arose when a Court appointed co-conservator demanded payment of dividend checks which a 50% shareholder of the company had failed to cash for many years. As a result of this economic and financial pressure, Defiance-New York was forced to obtain a secured loan to satisfy this obligation.

In 1980, Defiance-New York's shareholders decided to sell the company as a going concern. This contemplated sale was to include the factory, equipment, inventory, customer list, trade name, trademark and the goodwill of the business associated therewith. Although several offers for the business were received, they were rejected by the co-conservator.

In February, 1982, Frank V. Maner Jr., President of Defiance-New York, advised the conservators and other interested parties of his intention to set up a new company to sell existing customers button parts acquired from other companies. He stated that this arrangement would allow "the DEFIANCE name to remain alive for a few more weeks....".

Less than a month later, on March 1, 1982, Defiance-New York actually ceased

manufacturing operations and Mr. Maner, in a public announcement, advised that the company had terminated its manufacturing operations. About the same time, Maner himself left the dormant company, resigning as President of Defiance-New York and becoming an employee of Handy Button Machine Company ("Handy"), a principal competitor in the button business. An announcement that Maner had joined the company was mailed out by Handy. Defiance-New York also began dismissing its few remaining employees.

In June, 1982, as part of the inexorable move toward dissolution, Defiance-New York was declared in default on its secured loan, leading to a formal auction sale held on September 16, 1982. The auction was advertised in The New York Times, advising prospective purchasers that the complete button

manufacturing plant and product line of Defiance-New York was to be sold.

C & C was the successful bidder at the auction and, in a bulk sale, paid over $300,000 for virtually all the physical assets of Defiance-New York. These assets included machinery, office equipment, tools, dies, jigs, fixtures, work-in-progress, raw material and finished goods. Any remaining inventory that Defiance-New York had, and which it may have been selling off between March and September, 1982, was included in the auction sale.

Shortly after the auction, Maner asked C & C whether it would be interested in purchasing Defiance-New York's customer list, trademark, trade name and the goodwill associated therewith, items which had not been expressly sold at the auction. C & C offered $10,000 for the

trademark, trade name and goodwill, but this was rejected by the co-conservator.

In October, 1982, C & C circulated an announcement to the trade that the manufacturing facilities of Defiance-New York had been purchased by it and the assets were physically removed to C & C's premises in New Jersey. About the same time, Defiance-New Jersey was formed by C & C to carry on business with the recently purchased assets.

In November, 1982, Defiance-New Jersey commenced the sale of products bearing the trademark DEFIANCE. Defiance-New Jersey continued to ship buttons and parts, made in whole or in part by equipment which C & C had purchased at the auction from Defiance-New York, under the trademark DEFIANCE.

In April, 1983, Defiance-New York, still dormant and without physical as-

sets or employees, entered into a conditional purchase agreement wherein Handy agreed to purchase the outstanding shares of stock of Defiance-New York. The agreement was conditioned on court approval, since one of the co-conservators refused to join in the agreement. Court approval was eventually obtained about seven months later, in November of 1983. However, due to technical problems in Defiance-New York's existing pension plan, the sale was further delayed, and was not actually consummated until May 18, 1984.

The District Court found that after the auction sale, Defiance-New York had ceased selling goods under the DEFIANCE mark. (This remained the case through at least April, 1985, the date of the

Court of Appeals' decision.*) (See App., 19, n.1).

Significantly, the District Court also found that at the time Handy finally concluded the purchase of Defiance-New York's stock in mid-1984, "...there was no goodwill to which the [DEFIANCE] mark could any longer adhere". (App., 39).

2. The Decisions Of The District Court

The United States District Court for the Southern District of New York (Goettel, J.) concluded, after setting forth its findings of fact summarized above, that Defiance-New York had abandoned its mark because the mark had lost its significance as an indication of

*As of the submission of this petition, there has been no perceptible commercial manifestation of use of the trademark DEFIANCE by respondent or by Handy.

origin. This had resulted, according to the District Court, from Defiance-New York's (1) sale of all equipment adapted to manufacture buttons and button parts, (2) sale of all inventory of buttons and button parts, (3) sale of all raw material from which button and button parts could be made, (4) public announcements that Defiance-New York had discontinued manufacturing operations, (5) discharge of Defiance-New York's employees capable of manufacturing, shipping or inspecting buttons and button parts and (6) offering for sale of the very building which housed the offices and machines of Defiance-New York. Although the District Court found that Defiance-New York did not intentionally abandon the DEFIANCE mark, it also found that Defiance-New York did not evidence an intent to resume use of the mark.

(App., 36).

The District Court further found that any "goodwill" which had once been associated with the DEFIANCE name had dissipated by the time Handy purchased Defiance-New York's stock in May, 1984. As the Court noted in a colloquoy with counsel (App., 38-39):

> THE COURT: If the transaction between the plaintiff and Handy had been consummated at the time of the auction, or perhaps even shortly thereafter -- I wouldn't want to say how shortly thereafter -- the holding might have to be different. The fact that it got delayed for over a year because of the court battles and the pension problems is to me an important fact in the case in that the goodwill that remained other than the mark dissipated competely within that time and all you had left was a naked mark.
>
> * * *
>
> THE COURT: What I said was that the trademark can attach to the goodwill and the goodwill has some extrinsic existence, but under the circum-

> stances of this case where the plant was sold, the equipment was sold, the inventory was sold, the materials were sold, the employees were discharged, the building was put up for sale and the customer lists were left in the computer that was sold, the goodwill of the company rapidly disappeared. Whether it disappeared in a week or a month or a year, I am not prepared to say, but I am prepared to say that by the time they were able to conclude the sale with Handy and thereby be in a position to start manufacturing again, there was no goodwill to which the mark could any longer adhere. [Emphasis Added]

The District Court adhered to its decision, in denying Defiance-New York's motion to set aside the judgment and to grant a new trial (App., 41-46). Once again, the District Court found that the acts of Defiance-New York "...quickly diminished the value of its goodwill", so that when the stock was purchased by Handy "...there was no goodwill transferred with it" (App., 45). This, ac-

cording to the District Court, was "...equivalent to an assignment of the trademark without a transfer of goodwill" (App., 45).

3. The Decision Of The Court Of Appeals

In reversing the decision of the District Court, the United States Court of Appeals for the Second Circuit acknowleged that a mark "...ceases to be enforceable against others when it loses its significance as an indication of the origin of the goods sold by and associated with the mark owner". Examples mentioned by the Court of Appeals would be where the mark is the subject of unrestricted license or sale to others, where the mark has become generic, or where the owner assigns the mark without the goodwill associated with it. (App., 11). According to the Court, under these circumstances, "...the mark is

held to have been abandoned" (App., 11-12).

Although it recognized this principle, the Court of Appeals nonetheless ruled that the DEFIANCE mark had not been abandoned by Defiance-New York, since the definition of "abandonment" relied upon by the District Court and set forth in Section 45(b) of the Trademark Statute [15 U.S.C. Sec. 1127(b)] applied primarily to situations where a mark had become generic.

Petitioners now submit that the Court of Appeals committed clear error by limiting the definition of "abandonment" under Section 45(b) primarily to situations where a mark has become generic, and consequently in holding that this definition somehow did not encompass the situation presented here, namely, where all of the respondent's actions had

dissipated the goodwill by the time its stock was transferred to Handy, in May, 1984. The holding of the Court of Appeals that the mark was not abandoned at that time is directly contrary to the finding of the District Court, which found that at the time of the stock purchase, "...there was no goodwill to which the mark could any longer adhere" (App., 39). Since the goodwill was no longer in existence when Handy purchased the stock, the DEFIANCE name -- which had already been separated from the assets of the company and which no longer had any goodwill -- could not validly be transferred to Handy. The activities of Defiance-New York had caused the mark "to lose its significance as an indication of origin" within the meaning of Section 45(b).

REASONS FOR GRANTING THE WRIT

This case requires the granting of a Writ for a several reasons. To begin with, the decision of the Second Circuit is at odds with numerous decisions of this Court which has held, in no uncertain terms, that there is no right to a trademark "in gross". A trademark "...is not the subject of property except in connection with an existing business", United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918); Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 414 (1915); American Steel Foundries v. Robertson, 269 U.S. 372, 380 (1926). Furthermore, this Court has also long recognized that goodwill "...is tangible only as an incident, as connected with a going concern or business...and is not susceptible of being disposed of independently", Metropolitan

National Bank of New York v. St. Louis Dispatch Co., 149 U.S. 436, 446 (1893) and that a mark can be sold only with the goodwill of the business, A. Bourjois & Co. v. Katzel, 260 U.S. 689, 692 (1923).

The Writ should also be granted since the decision of the Court of Appeals is inconsistent with decisions of other circuits which have held -- quite properly -- that where a trademark owner disposes of the physical assets of his business and does not use the mark thereafter, any attempted assignment of the mark is an invalid assignment in gross. Mister Donut Of America, Inc. v. Mister Donut, Inc., 418 F.2d 838 (9th Cir. 1969); Uncas Mfg. Co. v. Clark & Coombs Co., 309 F.2d 818 (1st Cir. 1962).

But perhaps more importantly, this

Court should grant the Writ since the importance of this case transcends the individual rights of either petitioners or respondent. It is well known in today's often volatile business world that bankruptcies and other forced sales of assets of corporate entities and other concerns are a fact of life. Companies come and companies go, some after a few years and others after a longer period of time. Asset sales are frequently an essential part of the ultimate disposal of what may once have been the lifeblood of a thriving concern. Auction notices and bulk sales announcements have, unfortunately for some old line companies, become quite commonplace and are found regularly, in our major newspapers. Typically, these sales are completed in accordance with their specifications and goals, essentially emas-

culating the defunct company and generating a few financial "crumbs" for the disappointed lien holders.

But what about the public and its expectation as to some successor company which may have purchased only a bare trademark as part of the dismantling of the old company? Will consumers still be supplied with the same (or even similar) products as they had come to expect before? Who in these marginal situations of business "continuation" is the champion of the public's interest? The response should be that "goodwill" must be transferred if a mark is to still have any vitality and legitimacy as a source of origin, i.e., as meaning something to consumers about the product it formerly identified.

In today's business climate, however, trademarks are often used quite indis-

criminately. If goodwill is disregarded or even diminished in significance, a trademark which once denoted a quality product may now be used on products measuring up to much inferior standard. The scenario for this result is all too common: A company finds itself in financial difficulty, and in order to obtain revenue, it ultimately sells off all its physical assets, keeping only its trademark, which it then lets others use in a rather uncontrolled manner, or else sells it off separately for whatever it will bring from whoever will buy it. That is how watches once made in Switzerland are now made in Hong Kong under the same trademark, with the public none the wiser. It is for this reason -- the protection of the public -- that a trademark may not be assigned in gross. See PepsiCo, Inc. v. Grapette

Co., 416 F.2d 285, 290 (8th Cir. 1969) (Blackmun, J., concurring).

The present case epitomizes this sort of commercial saga. C & C purchased all of the assets of Defiance-New York in September, 1982 and started selling merchandise under the DEFIANCE name a few months thereafter. The availability of these assets enabled Defiance-New Jersey to offer to the public button parts made on the tools and dies which had previously been used by Defiance-New York. In the truest sense, the public was now getting "genuine" DEFIANCE merchandise.

On the other hand, Defiance-New York, at least through April, 1985 when the Court of Appeals rendered its decision, and in all probability to this very day, has still conducted no business under the DEFIANCE name which it seems to

covet so zealously -- more than 2-1/2 years having gone by from the time it sold its assets to C & C in September, 1982 until April of this year. This ever-lengthening period started out with an initial period while the mark alone was being "peddled" (September, 1982 - April, 1983), continued with a longer period of further inactivity when the prospective sale of the mark to Handy became stalled (April, 1983 - May, 1984), and has now been proceeding with a peculiar period of unfulfilled expectation of possible but not actual use of the DEFIANCE trademark (May, 1984 - July, 1985). Overall, nearly three years have elapsed without a sign or even a hint that either Handy or Defiance-New York are attempting to revive the DEFIANCE trademark.

Even if respondent started selling

DEFIANCE merchandise tomorrow, it could not be in a position to offer the same product line it once did, since all of the dies, tools and molds have been sold. It is the public who truly suffers if respondent is allowed to use DEFIANCE and petitioners are not, a result brought about directly by the Court of Appeals' decision in virtually disregarding the requirement of goodwill to accompany a transferred mark.

1. The Court Of Appeals Erred In Narrowly Construing Section 45(b) Of The Trademark Statute

This Court has stated time and time again that there is no such thing as a trademark "in gross". A trademark "...is not the subject of property except in connection with an existing business", United Drug Co. v. Theodore Rectanus Co., supra, 248 U.S. at 97. And numerous cases have held that when

the assets of a corporation are sold, the goodwill is destroyed, resulting in abandonment of the mark. Mister Donut Of America, Inc. v. Mister Donut, Inc., supra; Browning King Co. of New York v. Browning King Co., 176 F.2d 105 (3d Cir. 1949); Hough Mfg. Corp. v. Virginia Metal Industries, Inc., 453 F. Supp. 496 (E.D. Va. 1978); Uncas Mfg. Co. v. Clark & Coombs Co., 200 F. Supp. 831 (D.R.I.), aff'd, 309 F.2d 818 (1st Cir. 1962); Reconstruction Finance Corp. v. J.G. Menihan Corp., 28 F. Supp. 920 (W.D.N.Y. 1939); In re Jaysee Corset Co., 201 F. 779 (S.D.N.Y. 1911). J. McCarthy, Trademarks and Unfair Competition, Sec. 18:1 (2d ed. 1984) at 793-94.

The language of Section 45(b) is clear and unambiguous. It provides that a mark shall be deemed "abandoned" when any course of conduct of the trademark

owner causes the mark to lose its significance as an indication of origin.

Nonetheless and notwithstanding the clear meaning of Section 45(b), especially the use of the word "any", the Second Circuit, relying solely on Wallpaper Manufacturers, Limited v. Crown Wallcovering Corp., 680 F.2d 755 (C.C.P.A. 1982), ruled that it was not the intent of Congress to have Section 45(b) apply to a situation such as that presented here. It ruled that the statute was instead designed to cover only three particular situations, not expressly mentioned in the statute, namely to preclude enforcement of a mark which had become generic, had been licensed in gross or had been officially cancelled.

But it was error for the Second Circuit to refer to legislative history or the "intent" of Congress to limit a

statutory section which is clear on its face. United States v. Clark, 454 U.S. 555, 560 (1980).

Nor is the Wallpaper Manufacturers, Limited case really in point. In Wallpaper Manufacturers, the Court of Customs and Patent Appeals, in the context of a cancellation proceeding before the Patent and Trademark Office, ruled that the plaintiff's failure to take action against the defendant did not amount to "abandonment" within the meaning of Section 45(b). That Court, noting that the plaintiff had continued to actually use its mark, 680 F.2d at 760-61, held that as long as the plaintiff continued to have trademark rights in its mark, the mark could not be abandoned merely because the mark also came to denote the defendant. Id. at 765. The almost incidental reference to legislative history

on which the Second Circuit seems to have relied, was contained in a footnote in the CCPA's decision, id. at 766, n.13, and stated that Section 45(b) was drafted primarily to cover generic marks, and was clearly dicta. Moreover, the issue in Wallpaper Manufacturers did not even involve the transfer of assets, nor did the Court attempt to define what acts in general would constitute abandonment under Section 45(b).

That Wallpaper Manufacturers is not controlling is apparent from the Second Circuit's own decision, which recognized that Section 45(b) actually did, in any event, embrace activities which would prevent enforcement of a mark in limited situations other than where a mark had become generic. The Court recognized that abandonment under Section 45(b) would also apply, for example, where a

mark had been licensed in gross or officially cancelled (App., 16). The Court also recognized that a mark becomes abandoned where the owner assigns the mark without the goodwill associated with it (App., 11). See also J. McCarthy, supra, Sec. 17:2 at 769.

There is no quarrel from either side as to what events really transpired in the 1982-1984 period in this matter. Nor does anyone dispute the District Court's factual findings that Defiance-New York ceased all business operations, discharged its employees, disposed of its manufacturing and production assets, publicly announced its discontinuance of manufacturing activities, and that it failed to use the mark for well over two years; the District Court found that these actions caused the trademark to lose its significance. Clearly,

Defiance-New York's conduct was such "as to cause a loss in significance of its mark as an indication of origin", resulting in abandonment of the mark, as abandonment is defined in Section 45(b). See Guiding Eyes For The Blind, Inc. v. Guide Dog Foundation For The Blind, Inc., 384 F.2d 1016, 1019 (C.C.P.A. 1967).

2. It Was Error For The Second Circuit To Uphold The Validity Of Defiance-New York's Trademark, Where The Mark Had Been Transferred Long After The Goodwill Had Been Dissipated

It is a fundamental doctrine in trademark law that a mark cannot be transferred "in gross", that is, separate and apart from the goodwill symbolized by the mark. The Lanham Act, 15 U.S.C. Sec. 1060, provides that a trademark shall be legally assignable only along with "... the goodwill of the business in which the mark is used, or with that part of the goodwill of the business

connected with the use of and symbolized by the mark..." This statutory section merely restates the common law rule. Uncas Mfg. Co. v. Clark & Coombs Co., supra, 200 F. Supp. at 835.

It is also beyond question that if someone attempts to transfer a trademark separate from the goodwill, the attempted transfer results in abandonment of the mark. A. Bourjois & Co. v. Katzel, supra; Haymaker Sports, Inc. v. Turian, 581 F.2d 257 (C.C.P.A. 1978); Johanna Farms, Inc. v. Citrus Bowl, Inc., 468 F. Supp. 866 (E.D.N.Y. 1978); Avon Shoe Co. v. David Crystal, Inc., 171 F. Supp. 293 (S.D.N.Y. 1959), aff'd, 279 F.2d 607 (2d Cir. 1960). See also PepsiCo, Inc. v. Grapette Co., supra.

The Second Circuit recognized that "...when the owner discontinues his business activities and ceases to use

his trademark his goodwill begins to fade and if he does nothing to resume use of the mark it may eventually vanish altogether" (App., 17). Nonetheless, the Second Circuit was of the belief that if sale of the tangible assets, by itself, and if cessation of business, by itself, does not necessarily result in abandonment, the combination of these two events should not result in abandonment if (a) the goodwill has not been dissipated, (b) the owner or assignee retains the intent to sell products under the mark, and (c) such resumption occurs within a reasonable period of time. (App., 14). Petitioners believe that this considerably overstates the law and points it in a new and unreliable direction.

As indicated previously, sale of tangible assets results in trademark

abandonment, e.g., Reconstruction Finance Corp. v. J.G. Menihan Corp., supra, as does cessation of business, e.g., Browning King Co. of New York v. Browning King Co., supra. The combination of the two must be viewed as having a synergistic effect and certainly results in abandonment -- thus, the "sum of the parts" must surely equal or exceed the "whole".

And even assuming that the Court of Appeals' new postulate was correct, the application of these principles to the present case was totally inaccurate and contrary to the factual findings made by the District Court and even by the Court of Appeals itself. Most significantly, the District Court found that on May 18, 1984, when Handy finally purchased the stock of Defiance-New York, "...there was no goodwill to which the mark could

any longer adhere" (App., 39). This was reiterated by the District Court in its decision denying the motion to grant a new trial (App., 45). Furthermore, both the District Court and the Court of Appeals agreed that Defiance-New York had not resumed use of the DEFIANCE trademark (App., 19, n.1 and 35).

Thus, whether or not the DEFIANCE mark had "residual goodwill" when Defiance-New Jersey adopted the mark in November, 1982, it certainly had no goodwill by the time Handy purchased Defiance-New York's shares some eighteen months later. And there can be no dispute that the DEFIANCE mark had not been used by Defiance-New York from September, 1982 at least through April, 1985 when the Court of Appeals rendered its decision -- a period of well over two years.

For the Court of Appeals to hold that the goodwill of the DEFIANCE mark somehow continued under the circumstances presented here is contrary to the factual finding of the District Court on this issue. The Court of Appeals obviously engaged in second guessing the District Court on factual issues, which is clearly impermissible. Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 102 S.Ct. 2182, 2188 (1982).

The Court of Appeals' decision is also a remarkable departure from the Trademark Statute, which proscribes the transfer of trademarks except with the attendant goodwill associated therewith, and recognized case law. In fact, none of the cases cited by the Court of Appeals itself has ever gone so far as to hold that a mark may be validly trans-

ferred, by assignment, stock purchase or otherwise, where the goodwill has already been dissipated. None of those cited cases involved a situation where the trademark owner (a) sold its assets (b) discharged all its employees, (c) publicly announced its discontinuance of manufacturing, (d) attempted to transfer the mark a year and a half later and (e) did not use the mark for at least 2-1/2 years.

Thus, in Hy-Cross Hatchery, Inc. v. Osborne, 303 F.2d 947 (C.C.P.A. 1962), the assignee started to immediately use the mark after it had been transferred; in Visa, U.S.A., Inc. v. Birmingham Trust National Bank, 696 F.2d 1371 (Fed. Cir. 1982), cert. denied, 104 S.Ct. 98 (1983) and Sterling Brewers, Inc. v. Schenley Industries, Inc., 441 F.2d 675 (C.C.P.A. 1971), use of the

mark also began almost immediately after the transfers from the respective trademark owners. And in Merry Hull & Co. v. Hi-Line Co., 243 F. Supp. 45 (S.D.N.Y. 1965), the Court held that the mark was not abandoned as a result of a bankruptcy sale, since the receiver continued to sell product and significant assets were also transferred to the assignee who immediately set up manufacturing facilities.

Furthermore, in all of these cases, the courts found that the goodwill had survived based on specific conduct and activities of the trademark owner, a situation in stark contrast to the finding of the District Court in the present case.

In summary, the Second Circuit's decision runs contrary to fundamental principles of trademark law, as recog-

nized by the cases and by the Trademark Statute itself, dealing with the prohibition on transfer of a mark without the mark's goodwill. The District Court, having found that at the time of the transfer the goodwill of the DEFIANCE name had dissipated, was clearly correct in holding that the mark had become abandoned. The fact that the goodwill no longer existed, coupled with the transfer of virtually all significant physical assets to C & C and the failure of Defiance-New York to make any use of the mark through at least April, 1985, renders any claim that Defiance-New York had protectable rights unsupportable, either in law or in fact.

CONCLUSION

The Court of Appeals erred significantly when it held that Section 45(b) of the Trademark Statute applied primar-

ily to generic marks, and also by ruling that the District Court improperly relied on the definition of abandonment contained therein to uphold the validity of respondent's rights even though the DEFIANCE trademark had lost its significance as an indication of origin because of respondent's selling off its equipment, assets and raw material, offering its factory for sale, discharging its employees, publicly announcing the cessation of all activities and failing to use its mark for over two years.

The Court of Appeals also erred when it disregarded the clear meaning of the Trademark Statute, 15 U.S.C. Section 1060, and established an apparent precedent which will hereinafter sanction the transfer of a mark "in gross" after all goodwill thereof has dissipated.

This Court should grant the Writ requested herein since the Second Circuit ruled contrary to long-established and accepted cases of this Court and the courts of other Circuits. The granting of the Writ is equally appropriate because of the truly fundamental tenets of trademark law which have now been drawn into question. The decision, if left standing, will permit "phantom" trademarks of emasculated commercial entities to virtually lie in wait for unsuspecting and well-intentioned purchasers of such companies' physical assets, who would normally be characterized as either saviours of a failed business or at least contributors to the final well-being of the otherwise deprived and disappointed creditors. In a similar vein, the decision below is just as potentially harmful because it will

ultimately enable marks to be transferred "in gross", a situation which must inevitably result in the public being unable to rely on the traditional function of a trademark to denote the same quality goods which had previously been available, often for many years from a stable and dependable source of those goods.

This Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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Barry A. Cooper
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Dated: New York, New York

July 3, 1985

APPENDIX

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 511 — August Term, 1984

(Argued: December 3, 1984 Decided: April 4, 1985)

Docket No. 84-7775

DEFIANCE BUTTON MACHINE COMPANY,
Plaintiff-Appellant,

—against—

C & C METAL PRODUCTS CORP. and DEFIANCE BUTTON MACHINE COMPANY, INC.,
Defendants-Appellees.

Before:

MANSFIELD, OAKES and NEWMAN, *Circuit Judges.*

Appeal from an order and judgment of the Southern District of New York, Gerard L. Goettel, *Judge*, denying a claim alleging unlawful use of plaintiff's trademark DEFIANCE and its trade name in violation of the Lanham Act, 15 U.S.C. §§ 1051-1127 (1982), and conversion of plaintiff's customer lists. Plaintiff also appeals from an order denying its motion to amend its complaint to add a claim of conversion of other property.

Affirmed in part, reversed in part and remanded. Judge Oakes concurs in part and dissents in part in a separate opinion.

PAUL FIELDS, Esq., New York, NY (Terry Sue Zisowitz, Esq., McAulay, Fields, Fisher, Goldstein & Nissen, New York, NY, of counsel), *for Appellant.*

HENRY L. SHENIER, Esq., New York, NY (William A. Kinnaman, Jr., Esq., Shenier & O'Connor, New York, NY, of counsel), *for Appellees.*

MANSFIELD, *Circuit Judge*:

Defiance Button Machine Company (Defiance-NY), a New York corporation, appeals from an order and judgment of the Southern District of New York, entered after a non-jury trial before Judge Gerard L. Goettel, dismissing its complaint under the Lanham Act, 15 U.S.C. §§ 1051-1127 (1982), which seeks injunctive relief against defendants' use of its trademark DEFIANCE and trade name Defiance and damages. Plaintiff also appeals from the dismissal of its claim of alleged conversion of its customer lists and from the district court's refusal to permit it to amend its complaint to add a claim for conversion of its casting molds. The district court held that Defiance-NY abandoned its trademark when it sold the physical assets it used to produce goods under its trademark and name, even though the trademark and trade name were expressly excluded from the assets sold and there was evidence that the company, under new ownership, planned to use them in the production and sale of goods of substantially the same quality and nature as those produced under the mark. We reverse the dismissal of the claim based on unlawful use of plaintiffs' trademark and trade name. We affirm both the dismissal of the claim for

conversion of the customer lists and the denial of leave to amend the complaint.

Prior to the events giving rise to this lawsuit Defiance-NY, beginning in 1886, had been continuously engaged in the production and sale of metal buttons, button parts, button-making machines, dies and items of a similar nature. Until the mid-1970s it was a highly successful and growing manufacturer in the button and button parts field and had expanded its business into production of buttons and parts for use in the furniture industry and developed excellent customer relations and goodwill. Its trademark DEFIANCE was well known in the field, as was its trade name, and during almost 100 years of its operation substantial goodwill attached to the mark, name, and business associated with them.

Metal buttons and button parts are manufactured through use of dies and machines furnished by machinery suppliers according to specifications. Many buttons and button parts made by one manufacturer duplicate or are interchangeable with those made and sold by competitors. To the extent that a manufacturer does not have machinery capable of duplicating a competitor's product it can often obtain dies and machines that will do so. However, the wide variety in sizes and specifications of buttons and parts, coupled with the large number of different types sold, has led manufacturers to adopt as a common practice the procedure of purchasing a portion of their respective inventories from competitors for resale under the purchaser's trade name rather than requiring each manufacturer to make the entire line. During the period here involved, for instance, Defiance-NY sold approximately 3,000 different types of buttons and parts to some 1,500 customers. According to testimony at trial

and at oral argument on appeal, it purchased approximately ¼ to ⅓ of these for resale under the DEFIANCE trademark. These purchases were made from competitors, which included Handy Button Machine Company (Handy), C&C Metal Products Corp. (C&C), Astor Berning Corp., Maxant Corporation and Wade Button Co. Thus it may be possible for a company to make the merchandise offered for sale to its clientele, to purchase buttons and button parts from others for such resale, or to do both.

In the late 1970s Defiance-NY's business fortunes began to wane due to a downturn in the general economy, a decrease in demand for buttons, button parts and machinery, which was attributable to changes in furniture styles, and a cash flow problem which arose when Herbert Silberman, one of two court-appointed co-conservators for a 50% shareholder in the company, Beatrice Bauer, demanded payment of dividend checks that she had not cashed over the years. The company was forced to obtain a secured loan from Walter E. Heller & Co., to satisfy this obligation.

In 1980 Defiance-NY's shareholders decided to sell the company as a going concern. However, various offers by different parties in 1981 and 1982 to purchase the company, though recommended by the company's president, Frank V. Maner, Jr., were consistently blocked by Silberman's refusals to approve them. Among those seeking to purchase the business in early 1982 were Handy, Astor Berning, and C&C. Each specified that its offer was not only for Defiance-NY's machinery but also its trade name and customer lists. As a result of its inability to obtain Silberman's consent, Defiance-NY on March 1, 1982, announced that it would terminate its manufacturing

operation but continue to supply inventory items to its customers and that it hoped to keep the name alive by selling its goodwill and reputation, presumably so that its business could be continued.

In June 1982 Heller & Co. declared Defiance-NY to be in default on its loan with the result that an auction sale was held on September 16, 1982, at which assets, including those shown on a detailed list (which did not include its trademark, trade name, goodwill, customer lists, accounts receivable, a Fiat automobile, and its real estate), were sold in bulk to C&C for approximately $300,000. Thomas Lally, who authorized the auction, testified that in addition to the trademark and other property expressly excluded from the assets to be sold, the customer lists were not be sold and remained the property of Defiance-NY. The proceeds from the auction were sufficient to pay off the Heller loan and leave a balance for Defiance-NY. The assets sold at auction to C&C included machinery, office equipment (including a computer), tools, dies, jigs, fixtures, work in progress, raw material, and finished goods.

Following the auction Maner approached each of Defiance-NY's competitors to determine whether it would be interested in purchasing Defiance-NY's trademark, trade name, customer lists and trade information for use in its business. Bernard Chalfin, Vice-President of C&C, made an offer to Maner, who had left Defiance-NY to become employed by Handy, to purchase these intangibles for $10,000, which was not accepted. There followed a decision by Defiance-NY to resume business. In December 1982 Handy made an offer to the stockholders of Defiance-NY (including the two co-conservators for Ms. Bauer) to purchase their outstanding stock for $162,287, which

led to the negotiation of an agreement between the parties in April 1983. However, due to Silberman's opposition, which necessitated obtaining court approval, and due to pension fund problems, the sale of Defiance-NY's stock was not consummated until May 18, 1984. Defiance-NY, with Maner as its president, thereupon became a subsidiary of Handy. Since that time Defiance-NY, with capital of some $325,000, has planned to resume operation by purchasing buttons and parts from Handy Button and other former suppliers for resale. Sales will be made under its trade name and merchandise will bear its trademark DEFIANCE.

In the meantime, upon Defiance-NY's non-acceptance of C&C's $10,000 offer for its trademark, trade name and goodwill, C&C, within two weeks after the auction, formed the defendant Defiance Button Machine Company, Inc. (Defiance-NJ) under the laws of New Jersey and soon had letterheads printed which were identical to those used by Defiance-NY except that the address differed and instead of the phrase "Established 1886" the stationery bore in the same size print the phrase "Predecessor Established 1886," which clearly referred to Defiance-NY. The New Jersey corporation also copied Defiance-NY's fanciful logo that had been used by it both on its letterhead, on its packaging and in its sales materials, and arranged to have the identical logo printed on its letterhead. In addition, Defiance-NJ began using labels substantially identical to Defiance-NY's trademark, trade name and distinctive logo in the packaging of buttons and button parts sold to customers. Moreover, news articles originated by Defiance-NJ and distributed to customers made it appear that Defiance-NJ was the same as Defiance-NY and that the latter had become part of C&C, which was not true. As Judge Goettel found, though,

Defiance-NJ discontinued the misleading advertising after its initial use. In short, however, C&C, through its newly formed New Jersey company, took immediate steps to use Defiance-NY's trade name, trademark and goodwill to promote the New Jersey company's new business, despite the absence of any authority from Defiance-NY and after C&C's offer to purchase this property for $10,000 had not been accepted. After the New Jersey company went into business Defiance-NY frequently received checks for invoices issued by Defiance-NJ. Although this might be attributable to the failure of button purchasers to update their records to show Defiance-NJ's address, it could also indicate that the customers may have been misled into the mistaken belief that Defiance-NJ was the same as Defiance-NY.

In October 1982, shortly after the auction sale, Defiance-NJ employed as its general manager Cecil F. Wirth, who had been employed by Defiance-NY for many years and has since brought suit against it for deferred salaries. When Defiance-NY ceased manufacture in March 1982 Wirth was left in charge of its premises, where that company's trade secrets, consisting of customer lists and price list groupings maintained in customer files, were stored in the memory bank of its computer and available on discs as backup records. The computer, but not the software, had been listed as an asset to be sold at auction. The discs were kept in a safe on the premises until it was removed with certain other property sold at the auction, whereupon they were placed in a locked room. During this period Mr. Chalfin of C&C was permitted to enter the premises for the purpose of removing property purchased by C&C that was still in the custody of Defiance-NY. Mr. Chalfin, who did not know how to operate the computer, which his company C&C had pur-

chased from Defiance-NY in the auction sale, communicated with the former Defiance-NY operator of the computer, Rita Colletto, who had left its employ in April 1982. He paid her on two occasions, without any authorization from Defiance-NY, to demonstrate the use of the computer. During these demonstrations and possibly at Chalfin's request, Colletto printed out Defiance-NY's customer lists from Defiance-NY discs on the premises, which, according to Chalfin's testimony and that of Wirth, had been left lying around the premises after the auction. Mr. Maner, on the other hand, testified that he had placed the company's records in a locked room. The computer operator testified that at the times when she was called by Mr. Chalfin to operate the computer the discs containing the customer list information were in the computer room for billing and that copies were in a big safe. In order to have the computer print out the customer lists the computer operator was required to use the file name or code word "LSOLD," a term that could be found in source books located in the computer room.

On November 11, 1982, Willard L. Shonfeld, Executive Vice President of Handy Button, wrote Chalfin protesting its use of the Defiance-NY trademark and name in connection with C&C's sale of products on the ground that since C&C had not acquired the trademark and name, this use constituted a misappropriation of the name and a misrepresentation to the trade. Despite this protest, Defiance-NJ, beginning on November 18, 1982, started shipping goods to customers under the trademark DEFIANCE and continued thereafter. This was followed by a letter dated January 10, 1983, from Defiance-NY to Chalfin and a letter dated January 19, 1983, from Defiance-NY's counsel to Chalfin, both protesting the defendants' use of the Defiance trademark and name and

threatening suit unless C&C ceased using them. When C&C did not respond but continued shipping buttons and button parts under the trademark DEFIANCE, Defiance-NY on February 3, 1983, commenced the present action, invoking jurisdiction under the Lanham Act, 15 U.S.C. § 1121, and diversity jurisdiction. The complaint sought preliminary and permanent injunctive relief, damages, an accounting for profits realized from the alleged infringement, costs and attorney's fees.

On February 22, 1983, Judge Goettel denied preliminary relief on the grounds that damages would provide an adequate remedy and that Defiance-NY had failed to establish a threat of irreparable harm. On December 23, 1983, pursuant to leave of court, Defiance-NY amended its complaint to add a claim for conversion of its customer lists. Judge Goettel, to whom the case was tried without a jury, held a three-day trial. At the close of the evidence he denied Defiance-NY's motion to conform the pleadings to the proof by adding a claim alleging conversion of its casting molds (used to make button-making machinery) located at a Pennsylvania foundry, which had not been on the list of property sold at auction, on the ground that the motion was untimely since additional discovery would have been required by the defendants to meet the issues raised by this new claim.

Judge Goettel rendered oral findings and conclusions to the effect that the plaintiff had failed to sustain its trademark claims for the reason that as a matter of law it had, within the meaning of 15 U.S.C. § 1127, abandoned its exclusive right to the trademark DEFIANCE and its trade name Defiance. Title 15 U.S.C. § 1127 provides, in relevant part:

"A mark shall be deemed to be 'abandoned'—

(a) When its use has been discontinued with intent not to resume. Intent not to resume may be inferred from circumstances. Nonuse for two consecutive years shall be prima facie abandonment.

(b) When any course of conduct of the registrant, including acts of omission as well as commission, causes the mark to lose its significance as an indication of origin."

Judge Goettel found that Defiance did not intend to abandon the mark or name and that an intent to abandon will not be presumed from the owner's mere non-use of the mark. He further found that Defiance-NY "is presently implementing procedures to reestablish itself as a complete supplier of buttons, button parts, etc. under its DEFIANCE mark." However, he concluded that the mark lost its significance as an indication of origin within the meaning of § 1127(b) when Defiance-NY (1) sold its equipment, inventory, and raw material, (2) offered for sale its factory, (3) discharged its manufacturing employees, and (4) publicly announced its discontinuation of manufacturing activities. In Judge Goettel's view, even though Defiance-NY planned to use its goodwill and mark, its conduct in shutting down operations and inadvertently making its customer lists available to C&C effectively separated the mark from the goodwill it had symbolized. He also dismissed Defiance-NY's claim for conversion of its customer lists on the ground that they had lost their status as trade secrets by reason of its failure to protect them as such.

From these rulings and the court's order and judgment entered thereon Defiance-NY appeals.

Discussion

The Parties' Rights With Respect to the Trademark

A trademark or trade name symbolizes the goodwill attaching to a business. Since it represents the reputation developed by its owner for the nature and quality of goods or services sold by him, he is entitled to prevent others from using the mark to describe their own goods. *Prestonettes, Inc.* v. *Coty*, 264 U.S. 359, 368 (1924); *United Drug Co.* v. *Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918); *Marshak* v. *Green*, 746 F.2d 927, 929 (2d Cir. 1984). However, if the owner expressly abandons his mark, such as by cancelling it, or discontinues using it with the intent not to resume use, others are no longer restrained from using it since it ceases to be associated in the public's mind with the owner's goods or services. *Manhattan Industries, Inc.* v. *Sweater Bee by Banff, Ltd.*, 627 F.2d 628, 630 (2d Cir. 1980).

The mark also ceases to be enforceable against others when it loses its significance as an indication of the origin of goods sold by and associated with the mark owner, such as when the owner makes the mark the subject of an unrestricted license or sale to others, *Haymaker Sports, Inc.* v. *Turian*, 581 F.2d 257, 261 (C.C.P.A. 1978); *Universal City Studios, Inc.* v. *Nintendo Co., Ltd.*, 578 F. Supp. 911, 929 (S.D.N.Y. 1983), *aff'd on other grounds*, 746 F.2d 112, (2d Cir. 1984), or the mark has become generic, *Abercrombie & Fitch Co.* v. *Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976), or the owner assigns the mark without the goodwill associated with it, 15 U.S.C. § 1060; *Marshak* v. *Green, supra; Universal City Studios, Inc.* v. *Nintendo Co. Ltd., supra*, 578 F. Supp. at 922-23. Under such circumstances the mark is held to have been

abandoned for the reason that there "are no rights in a trademark apart from the business with which the mark has been associated" and the "[u]se of the mark by the assignee in connection with a different goodwill and different product would result in a fraud on the purchasing public who reasonably assume that the mark signifies the same thing, whether used by one person or another," *Marshak* v. *Green*, 746 F.2d at 929 (2d Cir. 1984); *accord Universal City Studios* v. *Nintendo Co.*, *supra*, 578 F. Supp. at 922-23 (holding invalid the separate transfer of the King Kong mark by its owner when all of the business associated with the mark had been developed by a third party movie studio).

Nonetheless, assignments of marks separate from the underlying business have been upheld when the assignee "is producing a product . . . substantially similar to that of the assignor [such that] consumers would not be deceived or harmed" or when there is "continuity of management." *Marshak*, *supra*, 746 F.2d at 930. Thus, a trademark may be validly transferred without the simultaneous transfer of any tangible assets, as long as the recipient continues to produce goods of the same quality and nature previously associated with the mark. *See Hy-Cross Hatchery, Inc.* v. *Osborne*, 303 F.2d 947, 950 (C.C.P.A. 1962) (denying a petition to cancel a registered trademark for a poultry business when the mark had been transferred, without any assets other than the goodwill associated with the name, to another producer, who thereafter raised a different variety of chicken); *VISA, U.S.A., Inc.* v. *Birmingham Trust National Bank*, 696 F.2d 1371 (Fed. Cir. 1982), *cert. denied*, 104 S. Ct. 98 (1983); *Sterling Brewers, Inc.* v. *Schenley Industries, Inc.*, 441 F.2d 675, 680 (C.C.P.A. 1971).

Moreover, an intent to abandon a mark will not be presumed from the owner's mere non-use of it for a period shorter than two years, as set forth in § 1127(a), and the presumption of abandonment following from non-use for a longer period is rebuttable, *Sterling Brewers, Inc.* v. *Schenley Industries, Inc., supra,* 441 F.2d at 679-81; *Saratoga Vichy Spring Co., Inc.* v. *Lehman,* 491 F. Supp. 141, 155 (N.D.N.Y. 1979), *aff'd,* 625 F.2d 1037, 1043-44 (2d Cir. 1980). Nor does a company's cessation of business automatically and immediately terminate its rights to a mark. *Sterling Brewers, Inc.* v. *Schenley Industries, Inc., supra,* 441 F.2d at 677, 681; *Merry Hull & Company* v. *Hi-Line Co.,* 243 F. Supp. 45 (S.D.N.Y. 1965). As the *Merry Hull* court stated:

> "Since the purpose of a mark is to protect the goodwill of a business, a right in the mark is created by its adoption and use in connection with that business, and if there is no business there is no goodwill and therefore nothing to protect. This is not to say, however, that goodwill can exist only in connection with an active going business and that at the moment business is suspended the goodwill ceases to exist." 243 F. Supp. at 50.

Thus, the *Merry Hull* court upheld the purchaser's rights to a mark that it purchased from a bankruptcy trustee along with some physical assets, several months after the bankruptcy and one month after the trustee stopped filling orders, even though the buyer delayed several more months before beginning production under the mark. The goodwill of the company survived this transition, and the purchaser was able "to 'go on in real continuity with [the] past.'" *Id.* at 51 (quoting *Mutual Life Ins. Co.* v. *Menin,* 115 F.2d 975 (2d Cir. 1940)). This rule recognizes that goodwill does not ordinarily disappear or

completely lose its value completely overnight. Erosion from non-use is a gradual process. As long as the mark has significant remaining value and the owner intends to use it in connection with substantially the same business or service, the public is not deceived.

If neither the separation from tangible assets, by itself, nor the termination of a business, by itself, will necessarily and immediately vitiate a mark and its associated goodwill, we see no reason why, under appropriate circumstances, the combination of these two events must inevitably destroy instantaneously the owner's goodwill and strip the owner of any right to its mark. The policies and practices of prior abandonment cases are consistent with the preservation of the mark in this situation, so long as (a) the goodwill of the concern has not wholly dissipated, (b) the owner or its assignee retains the intent to produce or market within a reasonable time a product or service substantially the same in nature and quality as that with which the trademark has been associated, and (c) such resumption of operations occurs within a reasonable time under the circumstances.

Applying these principles to the present case, the record is clear that Defiance-NY never intended to abandon its trademark and Judge Goettel so held. Upon its cessation of manufacturing operations in March 1982 it continued to sell merchandise from its inventory under its trademark and trade name until the auction sale of its tangible manufacturing assets in September 1982. Thereupon, for a very short period, it sought to sell the mark and name, which had been expressly excluded from the assets sold at auction, to one of several competitors for use in connection with sale of buttons and parts of substantially the same quality under its trademark DEFI-

ANCE, which would have been permissible. *Merry Hull & Company* v. *Hi-Line Co.*, *supra*, 243 F. Supp. at 50; *cf. Marshak* v. *Green*, *supra*, 746 F.2d at 930; *Hy-Cross Hatchery, Inc.* v. *Osborne*, *supra*. However, when the only offer—$10,000 from Chalfin, President of C&C—proved to be inadequate, Defiance-NY decided to resume business under its own name, acting as an independent purchaser for resale to the same trade under its DEFIANCE trademark of buttons and parts of the same quality it had previously manufactured and sold for almost 100 years. There followed within several months are negotiation of an agreement by the company's stockholders for sale of their stock to Handy on the understanding that the recapitalized Defiance-NY would resume its former business under its own trade name and sell buttons and parts under its DEFIANCE trademark. Continuity of management would be provided by Frank V. Maner, who had been the President of Defiance-NY for many years. The company also retained a copy of its customer lists, notwithstanding Defiance-NJ's use of another copy. Thus, from the time it ceased manufacturing activities until it became a wholly-owned subsidiary of Handy its conduct was at all times inconsistent with an intent to abandon its trademark or trade name. Title 15 U.S.C. § 1127(a) (quoted *supra*, pp. 1049-50) therefore cannot provide a basis for claiming abandonment and the district court properly found no intent to abandon.

The district court nevertheless found, and defendants argue, that Defiance-NY's course of conduct in ceasing operations and selling its manufacturing assets without simultaneously transferring its goodwill, mark and name to the purchaser, caused the mark to "lose its significance as an indication of origin" within the meaning of 15 U.S.C. § 1127(b) (quoted in full, *supra*, pp. 3049-50) and

amounted to an abandonment of the mark. We disagree. In the first place, we question whether § 1127(b) was intended by Congress to apply to conduct of the type existing here, in which the owner of the mark seeks to prevent its use by others and intends to keep the mark alive and to have it used in a resumed business; the statute was designed to preclude assertion of a right to enforce a mark that has become generic or has been licensed in gross or officially cancelled. As the Court of Customs and Patent Appeals (now the Federal Circuit) noted in *Wallpaper Manufacturers, Limited* v. *Crown Wallcovering Corp.*, 680 F.2d 755, 766 n.13, (C.C.P.A. 1982):

> "From the legislative history it is evident that abandonment under part (b) was principally intended to encompass acts of omission or commission by the registrant which resulted in the mark becoming a generic term. *See e.g.* Hearings on H.R. 102, H.R. 5461 and S. 895 before the Subcom. on Trademarks of the House Comm. on Patents, 77th Cong., 1st Sess. 104-115 (1941)."

Secondly, in the present case the mark DEFIANCE did not lose its significance upon Defiance-NY's sale of its manufacturing assets but continued to have substantial value measured by the residual goodwill attaching to the company's business, which did not vanish overnight. The continued existence and value of the company's goodwill and of the mark symbolizing it may well be evidenced by C&C's offer to purchase the mark for $10,000 immediately after the auction sale, by its unauthorized duplication and misappropriation of Defiance-NY's name, letterhead and individually-created, unique and fanciful logo, and by Handy's purchase of Defiance-NY's stock at a consider-

ably higher price in order to obtain the mark and goodwill. If the goodwill and mark had lost their value and significance as an indication of origin it is unlikely that C&C would have offered $10,000 for them, *see Sterling Brewers, Inc.* v. *Schenley Industries, Inc.*, *supra*, 441 F.2d at 679, or tried to copy them overnight. C&C's obvious purpose was to capitalize on the goodwill developed by Defiance-NY over nearly 100 years.

Thus the district court's decision would eliminate the significance of the DEFIANCE mark as an indicator of origin in Defiance-NY but recognize it as an indication of origin in Defiance-NJ. This was error. We do not believe that § 1127(b) was designed to bring about such an unfortunate result; it was intended to apply only when a mark ceases to be capable of indicating any single origin, which is not the situation here.

The fundamental error in defendants' position is their assumption that a business' goodwill and the mark symbolizing it are lost whenever the business loses its tangible assets or ceases active conduct of its operation. If that were the case, the destruction of a business' factory or its bankruptcy would terminate its goodwill, even though it resumed business and use of the mark after reconstruction of the plant or emergence from bankruptcy. Such an unjustifiable forfeiture of valuable goodwill developed by the owner at great cost and expense would clearly be unacceptable. *See Merry Hull & Company* v. *Hi-Line Co.*, *supra*, 243 F. Supp. at 50-52. It is true that when the owner discontinues his business activities and ceases to use his trademark his goodwill begins to fade and if he does nothing to resume use of the mark it may eventually vanish altogether. *See* J. McCarthy, Trademarks & Unfair Competition, § 17:3, at 594-95. However, in the

present case the period of non-use has been too short to dissipate substantially the goodwill built up over a period of almost 100 years, and certainly this goodwill had not dissipated when Defiance-NJ adopted the mark barely a month after the auction sale of the New York company's assets.

The bankruptcy cases relied upon by defendants in support of their contention that the DEFIANCE mark has been abandoned and has lost its significance as an indication of origin are clearly distinguishable. In *Reconstruction Finance Corp.* v. *J.G. Menihan Corp.*, 28 F. Supp. 920 (W.D.N.Y. 1939), the sale of the tangible assets without any reference to trademarks amounted to a permanent termination of the business to which the goodwill attached; the owner had no intention to resume the business and, indeed, could not do so because of the uniqueness of the product manufactured, a special arch-preserver shoe made according to individualized patterns. In the present case, Defiance-NY has stated repeatedly that the business has not been permanently ended but will be resumed and continued with the production by Handy and sale by its subsidiary, Defiance-NY, of buttons and parts that are the same as those sold by it in the past. Similarly, in *Hough Manufacturing Corporation* v. *Virginia Metal Industries, Incorporated*, 453 F. Supp. 496 (E.D. Va. 1978), the trustee in bankruptcy who sold the bankrupt's assets without mentioning its goodwill or trademark "made no effort to continue the bankrupt's business," *id.* at 501, and had no intention to do so. Substantially the same factual context existed in *In re Jaysee Corset Co.*, 201 F. 779 (S.D.N.Y. 1911), a rather hoary decision invoked by appellees. The *Hough* decision, moreover, acknowledged that goodwill might temporarily survive the cessation of business and found that courts "must look

to all the facts and circumstances surrounding the cessation of business to determine whether the good will of a particular business survives." 453 F.2d at 500. That is just what we have done here, concluding that Defiance-NY never lost its goodwill or the intent and capacity to have its name and trademark represent a substantially equivalent product in the marketplace.

We therefore hold that Defiance-NY is entitled to restrain C&C and Defiance-NJ from using the trademark DEFIANCE and from using any trade name that includes the word Defiance. Our decision is without prejudice to the injunctions being vacated upon the defendants' successfully shouldering the burden of showing that Defiance-NY has not resumed use of the mark and name in connection with sale of buttons and parts of substantially the same quality within a reasonable time.[1]

The Defiance-NY Customer Lists

A customer list developed by a business through substantial effort and kept in confidence may be treated as a trade secret and protected at the owner's instance against disclosure to a competitor, provided the information it contains is not otherwise readily ascertainable. *See Leo Silfen, Inc.* v. *Cream*, 29 N.Y.2d 387, 393-95, 328 N.Y.S. 2d 423, 427-29, 278 N.E.2d 636, 639-41 (1972); *FMC Corp.* v. *Taiwan Tainan Giant Industrial Co., Ltd.*, 730 F.2d 61, 63 (2d Cir. 1984) (p.c.). However, the owner is entitled to such protection only as long as he maintains the list in secrecy; upon disclosure, even if inadvertent

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[1] In order to continue using its trademark and trade name Defiance-NY should not be required to resume sale of every single item of its earlier line as long as it offers for sale items representing a substantial portion of that line.

or accidental, the information ceases to be a trade secret and will no longer be protected. *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 475-76 (1974); *Fisher Stoves, Inc.* v. *All Nighter Stove Works, Inc.*, 626 F.2d 193, 196 (1st Cir. 1980); Restatement of Torts, § 757, comment b, at 6 (1939) ("[A] substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information."); *see also FMC Corp., supra*, 730 F.2d at 63 (stating generally that New York follows Restatement of Torts § 757, comment b).

Accordingly, "the courts require that the possessor of a trade secret take reasonable measures to protect its secrecy." 1 R. Milgram, Milgram on Trade Secrets §2.04, at 2-36 (1984); *see* Restatement of Torts, § 757, comment b at 6 (listing as two of six factors to be considered in determining whether given information is a trade secret: "the extent of measures taken by [the owner] to guard the secrecy of the information" and "the ease or difficulty with which the information could be properly acquired or duplicated by others"); *Rapco Foam, Inc.* v. *Scientific Applications, Inc.*, 479 F. Supp. 1027, 1029 (S.D.N.Y. 1979); *see also* 1 R. Milgram, *supra*, § 2.04, at 2-38 to 2-39 (characterizing as apt the principle that "one may not venture on liberties with his own secret, may not lightly or voluntarily hazard its leakage or escape, and at the same time hold others to be completely obligated to observe it."). Absent such measures, a customer list will cease to be a trade secret and will lose the protections of trade secret law. *See, e.g., Fisher Stoves, Inc., supra*, 626 F.2d at 196 (holding unprotected a dealer list found by a competitor on the counter of a store); *McCann Const. Specialties Co.* v. *Bosman*, 44 Ill. App. 3d 1020, 358 N.E. 2d 1340, 1342 (2d Dist. 1977) (refusing to hold a cus-

tomer list to be a trade secret when it was "not under lock and key, and there [was] no evidence of any effort on the part of the plaintiff to insure that [the] list should be considered secret or confidential").

In the present case, Judge Goettel found that Defiance-NY's customer lists lost their character as trade secrets because the company failed, upon selling most of its tangible assets (including its computer), to take reasonable steps to protect the lists from coming into C&C's hands. Since that finding is not clearly erroneous we accept it and affirm the district court's dismissal of the claim alleging conversion of the lists. Fed. R. Civ. P. 52(a); *see* 1 R. Milgram, *supra*, § 2.03 at 2-32 to 2-33 ("Existence of a trade secret is a question of fact for the determination of the trier of fact, secrecy being a basic element.") (Footnotes omitted).

The record reveals that Defiance-NY did not intend to disclose the lists to C&C and that it did keep the confidential data on discs in a locked room. However, the information was also left in the memory of the computer sold by Defiance-NY to C&C, from which it could be retrieved by using a file name or password readily available in source books to which C&C had access. In failing to segregate the source books and to erase the lists from the computer, ownership of which was transferred to C&C, Defiance-NY did not take adequate measures to ensure the secrecy of the lists. Hence, even though C&C may have obtained the lists by improper means—paying Colletto, a former employee of Defiance-NY, to extract the information from the computer—any such impropriety does not create liability for use of a trade secret, since by failing to protect the lists from ready access by C&C inde-

pendent of Colletto's assistance, Defiance-NY had forfeited the protections of trade secret law.

The District Court's Denial of the Motion to Amend the Complaint

The complaint contains no claim that C&C converted casting molds owned by Defiance-NY which were to be used for manufacturing button-making machinery. At trial there was evidence that the company owned such molds and that they were not specifically listed among the assets and machinery sold to C&C at the September 1982 auction. C&C contends that Heller had a security interest in "all" of Defiance-NY's machinery and was authorized to sell the molds in a "bulk sale" as part of the "product lines" listed for sale. At the close of trial Judge Goettel denied plaintiff's motion under Fed. R. Civ. P. 15(b) to amend the pleadings to conform to the proof and thus include a claim of conversion of the molds. We find no abuse of discretion in his so ruling. Since Defiance-NY's attorney expressly stated at the start of trial that it was limiting its conversion count to the customer lists and since evidence regarding the molds was relevant to the pleadings as they stood at that time, the court was not required to treat the issue as tried by consent of the parties. As C&C was not on notice that a new issue was being added to the trial, it cannot be found implicitly to have consented. *See* 3 Moore's Federal Practice, ¶ 15.13 [2], at 15-174 to 15-177 (2d ed. 1948 & Supp. 1984); *Haught* v. *Maceluch*, 681 F.2d 291, 305-06 (6th Cir. 1982). Furthermore, Judge Goettel found that further discovery would have been necessary for trial of the issue.

CONCLUSION

The district court's denial of plaintiff's motion to amend the complaint to include a claim of conversion of molds and its dismissal of its claim of conversion of customer lists are affirmed. The order and judgment dismissing plaintiff's claim of unlawful use of its trademark DEFIANCE and its trade name Defiance is reversed. The case is remanded with directions to enter a judgment enjoining the defendants from further use of the trademark and trade name. Upon remand the district court will determine what damages, if any, have been suffered by plaintiff from the defendants' unlawful use of its mark and name, and Defiance-NY will be afforded the opportunity to demonstrate that it is entitled to an accounting under the standards discussed in *Burndy Corporation* v. *Teledyne Industries, Inc.*, 748 F.2d 767 (2d Cir. 1984), and cases cited therein. In the event that Defiance-NY does not within a reasonable period of time resume use of its mark and name in connection with the sale of buttons and button parts of substantially the same quality as those hitherto sold by it, the defendants may move to vacate any order or judgment of the district court entered pursuant to this decision. Jurisdiction of the case is retained by this panel for purposes of considering any possible future appeal. The mandate shall issue forthwith. Costs to appellant.

OAKES, *Circuit Judge* (concurring in part and dissenting in part):

I agree with all of Judge Mansfield's thorough and well-reasoned opinion except that part pertaining to the customer lists lifted, so to speak, from the Defiance-NY computer's memory. The lifting was done, it seems to me, by artifice. The diskettes containing the lists were kept in a safe in a locked room. While the lists were in the computer's memory, it was coded so that the password "LSOLD" had to be given to the computer to obtain a printout. Only the controller and the computer operator, Rita Colletto, knew the code, though it was in the source book. She had been retired and did not even know about the auction when Chalfin contacted her to come in and operate the computer. Their testimony differed, he saying that she chose the customer list diskette, she that he asked her to run off the list of customers. Peel-off labels were not available, so she set up the machine for doing them, according to her testimony, and a day or two later Chalfin called her by telephone to ask her how to get it working and she told him. In essence C&C argues, and the court decides, that if a coded list is left in the computer's memory and the codeword is in a source book which is not under lock and key, the trade secret is abandoned, even if the codeword is obtained through an unwitting operator rather than the source book. I disagree, think it was obtained by improper means, Restatement of Torts § 757 (1939), and would reverse on this point accordingly.

APPENDIX B

Findings of Fact and Conclusions of Law of the District Court

FINDINGS OF FACT

DEFIANCE BUTTON
MACHINE COMPANY

v. 83 Civ. 928 (GLG)

C & C METAL PRODUCTS
CORP., et ano.

June 19, 1984
2 p.m.

(Trial continued)

THE COURT: The following are the court's findings of fact.

I would note parenthetically that I have not adopted all findings even where agreed to by both parties since in some instances I found them to be immaterial and in other instances evidentiary matters and not findings.

Plaintiff, Defiance Button Machine Company, ("Defiance-New York") is a New York corporation formerly having offices at 44-40 Eleventh Street, Long Island City, New York.

Defiance-New York was formed in 1886 for the manufacture and sale of buttons, button parts, button molds and attachment machines. For 95 years thereafter it engaged in business under the trademark and trade name DEFIANCE. During its some 95 years of operation the trademark and trade name DEFIANCE has become well known and highly respected in the furniture and garment industries.

Defendant C & C Metal Products Corp. ("C & C") is a New Jersey corporation having a principal place of business at 456 Nordhoff Place, Englewood, New Jersey and maintains offices and transacts business within this judicial district. It is in the business, inter alia, of manufacturing and selling buttons and parts.

The defendant Defiance Button Machine Company, Inc. ("Defiance-New Jersey") is a New Jersey corporation which is wholly owned by defendant C & C.

Handy Button Machine Company is a Delaware corporation having an office at 1750 North 25th Avenue, Melrose Park, Illinois, and is the parent of Handy Button Machine Company of New York, Inc., which has a place of business at 50-05 47th Avenue, Woodside, New York. The two corporations collectively are referred to as "Handy" hereinafter.

Handy is in the business of manufacturing and selling buttons and parts of buttons and was the largest competitor of Defiance-New York.

Mrs. Claire Burke was vice-president of plaintiff, Defiance-New York, and is a cotrustee of the trust that covered 50 percent of the stock ownership of plaintiff, Defiance-New York.

Frank V. Maner, Jr., son of Claire Burke, is president of plaintiff and cotrustee with Claire Burke of said trust.

Beatrice C. Bauer was the owner of the other 50 percent interest in the plaintiff, Defiance-New York.

Eileen A. Curly and Herbert Y. Silberman, Esq., are coconservators of the estate of Beatrice C. Bauer, appointed by the Supreme Court of the State of New York.

Defiance-New York registered the trademark DEFIANCE on August 20, 1912 for buttons and parts of buttons, which registration bore number 87,984. The registration expired and was not renewed. The name continued as a common law trademark.

On or about August 3, 1979, plaintiffs executed a collateral installment note for $100,000 in favor of Walter E. Heller & Company, Inc. To secure the $100,000 note plaintiff also executed an inventory loan security agreement dated July 1979. Said note was additionally secured by an equipment security agreement dated August 3, 1979, stating that plaintiff had requested that Walter E. Heller Company lend to it a sum to be

secured by "all of debtor's accounts receivable, inventory, patents, trade names, trademarks, machinery and equipment."

On December 21, 1979 plaintiff executed a collateral installment note for the sum of $150,000 in favor of Heller. This note replaced the earlier note.

In or about 1980, due to the downturn of economic conditions in the furniture market and the general recession affecting the economy as a whole, as well as other developments with respect to the loans owed to Beatrice C. Bauer, the conservators and the cotrustees agreed to attempt to sell Defiance-New York as a going concern, including the factory, equipment, inventory, customer list, trade name, trademark and the goodwill of the business associated therewith.

Astor-Burning, a European company, was first contacted and negotiations with Astor-Burning continued for quite sometime. The negotiations resulted in an offer from Astor-Burning. At that point other competitors, including defendant C & C, Handy Button Machine Company and Maxant Corporation, were also contacted to see if they were interested in making any offers.

All of these offers were rejected by Mr. Silberman, one of the coconservators for Miss Bauer.

In 1981 new bids were solicited for the sale of Defiance-New York as a going concern. Offers were received from the defendant, C & C, Handy, Maxant Corporation and Astor-Burning. The high bid for the outstanding stock of Defiance-New York, exclusive of the building, was made by Astor-Burning in the amount of $350,000. However, the coconservator for Miss Bauer again found the offer inadequate and as a result no bids were accepted.

About this time Frank Maner personally considered purchasing the other half of the outstanding stock of Defiance-New York. Mr. Maner considered having the products manufactured by Handy to Defiance-New York's specifications and these products would then be sold by Defiance-New York under the

DEFIANCE trademark. Handy had similar machinery to Defiance. Other parts would have been contracted out to other companies.

On September 22, 1981, Warren Goidel, attorney for one of the conservators, requested on behalf of Beatrice Bauer that Frank Maner formulate his own offer for the purchase of the assets of plaintiff. On October 5, 1981 Maner replied with an offer to purchase the capital stock of Defiance, less the building and mortgage, for $250,000, Maner's previous offer of $300,000 being lowered in view of the worsening prospects of the company.

On December 23, 1981, Goidel informed Maner of the intention of his client, coconservator Eileen Curly, to accept the offer subject to certain stated conditions. However, the following day the other coconservator, Silberman, rejected the offer as being inadequate and gave $350,000 as his belief of a more realistic figure.

Subsequently, in or about January 1982 another effort was made to sell Defiance-New York as a going concern and bids were received from essentially the same companies as before. At this time Handy made the highest bid of $372,000 for the Defiance-New York inventory, equipment, trademark and trade name DEFIANCE, and the goodwill of the business associated therewith. Astor-Burning bid approximately $340,000 for these assets. However, the coconservator again refused the offer and no sale was concluded.

Shortly thereafter a decision was made to terminate manufacturing activities and to continue selling goods to customers from inventory. These goods, as all other goods, were similarly sold under the DEFIANCE mark by placing the mark DEFIANCE directly on the goods or on the container for the goods.

On February 11, 1982 in a communication to the conservators and other interested parties of plaintiff, Maner advised of his intention to set up a new company to sell existing customers parts acquired wholesale from other companies. Maner stated

that his proposal, if accepted, would allow "the DEFIANCE name to remain alive for a few more weeks with the possibility of a sale to myself or to a competitor." He suggested other alternatives as well.

On or about March 1, 1982, plaintiff ceased manufacturing operations and Frank Maner in a public announcement to the friends and creditors of plaintiff informed them that plaintiff had ceased manufacturing operations. Thereafter, in the beginning of March, 1982 Maner resigned as president of plaintiff and became an employee of Handy.

On March 16, 1982 Handy mailed out an announcement that Maner had joined the company. Plaintiff Defiance-New York also began dismissing employees at this time and when Maner left Defiance-New York at the beginning of March 1982, there were six or so employees remaining. After the departure of Maner, Cecil F. Wirth, who had been employed by plaintiff, Defiance-New York, for about 37 years, and was, since 1976, general manager of plaintiff, was left in charge of the premises.

On June 7, 1982, Heller notified plaintiff that it was in default of the inventory loan security agreement dated July 1979, the equipment security agreement dated August 3, 1979, and the accounts financing security agreement dated December 21, 1979. Thereafter Industrial Plants Corporation was commissioned by Heller to conduct a security agreement sale at a public auction.

This sale was ultimately determined to be a bulk sale.

On August 31, 1982, IPC wrote to C & C and others in the trade to inform them of the security agreement public auction sale of plaintiff to be held on September 16, 1982. Enclosed with the letter was an advertisement for the auction of the complete button manufacturing plant of plaintiff, which appeared in The New York Times.

On September 1, 1982 International Plants Corporation promulgated a public notice of the auction to be held on September 16, 1982, which notice listed the property that was being sold.

Among the items specifically included on a four-page list were miscellaneous machinery, miscellaneous shop and crib, office equipment consisting of, inter alia, an IBM System 32 computer and "product lines consisting of tools, dies, jigs and fixtures, work in process, raw material, finished goods, special machinery, etc."

The four page list did not purport to contain a complete schedule of articles to be sold but only listed the major items.

At the auction the auctioneer specifically announced that the trademark and trade name were expressly excluded from the sale. The highest bidder at the auction sale was C & C with a bid of approximately $300,000.

Following the auction, Maner asked Bernard Chalfin, vice-president of C & C, whether he would be interested in purchasing the plaintiff's customer lists, trademark, trade name and the goodwill associated therewith. Mr. Maner was advised by Mr. Chalfin that he would speak with his principals and would subsequently advise him. Shortly thereafter Mr. Chalfin offered $10,000 for the trademark, trade name and the goodwill of the business associated therewith. However, a sale could not be consummated because coconservator Silberman felt that the offer was inadequate.

There was on the premises of the plaintiff softwear containing plaintiff's trade secrets in the form of customer lists and price list groupings maintained in customer files. These were stored in the computer's memory bank and on disks available as backup records. C & C acquired at the auction the office equipment including the IBM System 32 computer, which included a 3741 IBM keypunch machine and computer.

The softwear of the plaintiff, Defiance-New York, was not listed as being an asset in the auction sale but the computer system was and it necessarily required certain of the softwear to be operable.

In September or October of 1982 Miss Rita Colletto, a former employee of plaintiff, demonstrated to Bernard Chalfin the use of the computer purchased by defendants at the September 16th auction. Defendants thereafter obtained printouts of plaintiff's customer list from the computer. Defendants also obtained a printout of plaintiff's product identification program or product line listing from the computer.

Plaintiff's prices were a matter of public record. Frank Maner knew that defendants had purchased at the September 1982 auction the computer system from which the printouts were obtained.

On September 29, 1982, Bernard Chalfin wrote to the plaintiff, with copies to Frank Maner and the coconservators, informing them of C & C's purchase of certain assets at the auction. The letter noted that the defendant C & C was using its best efforts to move the machinery, equipment, office furnishings and other purchases within the time limits stated in the rules of the auction, and that C & C would like the addressee's information and cooperation with respect to books and records and other papers located within the office furniture purchased by C & C. The letter concluded by requesting a discussion of the removal or delivery of the documents in question and that if no response was received by October 8th, C & C would have to expedite the removal of the equipment, possibly leaving plaintiff's records in a disorganized condition.

Defendants discussed with Mr. Maner their entry into plaintiff's building in Long Island City for the purpose of removing therefrom equipment purchased at the auction. Maner was the only representative of plaintiff available to contact in respect of this purpose. In the course of such contact Chalfin requested that Frank Maner remove any documentary material that the latter considered to be private material, material defendants should not be permitted to have, or material that should be preserved for plaintiff. To facilitate such removal, defendants permitted plaintiff to retain custody of file cabinets contained in a separate room at plaintiff's plant. Maner had a number of former employees of plaintiff enter the premises in Long

Island City for the purpose of disposing of unwanted material. The former employees took empty barrels or drums, went through various file cabinets and filled the drums with material that they did not need or did not want to let out of the premises.

Between September 16, 1982 and the final removal of the inventory and equipment, both plaintiff and the defendant had keys to the plaintiff's building and the plaintiff had uninterrupted access to the building during this time. To the best of plaintiff's knowledge the defendants were not to have keys to the locked room in which certain records were kept.

On at least one occasion following the September auction, Frank Maner brought a number of people to the plaintiff's building to work with him to put certain documents into separate files which were locked and marked not part of the sale.

Before the sale of plaintiff's plant Cecil Wirth and others filled orders from the remaining inventory. What was left was sold at the auction sale. Immediately after the auction Wirth was left on the premises to accept payments that came in for the plaintiff, crediting these payments, and for other similar activities and assisting Mr. Maner during this period in separating out documentation from the file cabinets that had been purchased at the auction. Two weeks thereafter, in October of 1982, Mr. Wirth left and became employed by the defendant, Defiance-New Jersey.

On October 5, 1982, Wirth, acting as general manager for defendant, Defiance-New Jersey, promulgated an announcement to the trade that the manufacturing facilities of plaintiff had been purchased by C & C. The defendant, Defiance-New Jersey, was formed at about this time. After defendant C & C bought equipment, it removed most of it from the premises of plaintiff and transported it to its premises at Englewood, New Jersey.

The defendants copied the entire fanciful design of the Defiance-New York logo as used on its letterhead and included the statement "Predecessor established 1886." Using this

letterhead with the Defiance-New Jersey address, defendants sent notices to the trade. This letter was sent to those customers that defendants had obtained by running the plaintiff's customer lists as well as other trade sources. The defendants also began to market the goods sold by Defiance-New Jersey under a label that was virtually identical to the plaintiff's trademark and trade name.

Additionally, defendants caused to be published an article in the December issue of Upholstering Today magazine announcing that defendant C & C had purchased Defiance-New York and it was now operating under the corporate umbrella of C & C. This article was prepared by defendants' advertising agency, but in consultation with defendants' vice-president, Bernard Chalfin, and Mr. Wirth.

The defendants also caused to be published advertisements and stories that could lead one to infer that there was a relationship between Defiance-New York and the defendants. These advertisements were soon revised to avoid any such inference.

On November 11, 1982, Willard L. Shonfeld, executive vice-president of Handy, wrote to Bernard Chalfin protesting the use of the trade name DEFIANCE in connection with C & C's sale of products. On or about November 18, 1982, defendant, Defiance-New Jersey, made an initial shipment of products bearing the trademark DEFIANCE to Prestwood Hardware Company of Hudson, North Carolina. Thereafter Defiance-New Jersey continued to ship buttons and parts under the trademark DEFIANCE. These buttons and parts were made in whole or in part by equipment C & C had purchased from plaintiff.

On January 10, 1983, Claire Burke, vice-president of plaintiff, wrote to Bernard Chalfin protesting the use by defendants of the trade name and trademark DEFIANCE claiming that it was an infringement. When defendant Defiance-New Jersey continued selling buttons and button parts under the trademark DEFIANCE plaintiff commenced the present action on or about February 4, 1983.

The plaintiff, since the sale of the inventory and equipment in September, continued negotiating to sell its assets, including its trademark, trade name, customer lists, trade secrets, manufacturing processes and the like. These negotiations finally came to fruition on or about April 13, 1983 by the execution of a conditional purchase agreement between plaintiff, the stockholders of plaintiff, and Handy, to purchase the outstanding shares of stock of the plaintiff. This agreement was conditioned on court approval since one of the coconservators, Silberman, refused to join in the agreement.

Additionally, a supplemental agreement was entered into between the same parties whereby Handy Button Machine Company agreed to loan to the plaintiff certain moneys which were required for the prosecution of the present action and thereby protect some of the major assets of the corporation.

On or about November 7, 1983, court approval was obtained with respect to the purchase agreement of plaintiff by Handy.

On May 18, 1984, the outstanding stock of the plaintiff was purchased by Handy pursuant to the agreement dated April 13, 1983. The sale had been further delayed due to problems in plaintiff's existing pension plan.

Plaintiff is presently implementing procedures to reestablish itself as a complete supplier of buttons, button parts, etc. under its DEFIANCE mark and trade name to the furniture and allied industries.

That concludes the findings of fact.

MR. SHENIER: May it please the court, there is one salient fact that is not mentioned.

THE COURT: What's that?

MR. SHENIER: Neither the plaintiff nor Handy ever sold any products under the name DEFIANCE after the sale.

THE COURT: I would think it is there by very clear inference. I said the inventory was sold up to the date of the sale and then the inventory was sold to C & C. How could they have anything left to sell after the date of the auction sale?

MR. SHENIER: That's true, your Honor. Don't you believe that it would be interesting to have a finding of fact that states they never sold any goods at all bearing the trademark DEFIANCE.

THE COURT: After the auction sale?

MR. SHENIER: After the auction sale.

THE COURT: I would have thought that was apparent from the findings. If there is any doubt of it, I will state that after the auction sale plaintiff ceased selling goods under the mark DEFIANCE, or indeed under any mark.

MR. SHENIER: Thank you, your Honor.

CONCLUSIONS OF LAW

THE COURT: The following are the conclusions of law:

This action arises under the Lanham Act, 15 U.S.C. Section 1051, et seq. Jurisdiction is conferred upon this court pursuant to 15 U.S.C. Section 1121, 28 U.S.C. Sections 1332 and 1338, and the principles of pendant jurisdiction.

Venue is proper in this judicial district pursuant to 28 U.S.C. Section 1391(b) and (c).

The statute involved, 15 U.S.C. Section 1127, provides:

"A mark shall be deemed to be 'abandoned':

(a) When its use has been discontinued with intent not to resume. Intent not to resume may be inferred from circumstances. . .

(b) When any course of conduct . . . including acts of omission as well as acts of commission causes the mark to lose its significance as an indication of origin."

Title 15 U.S.C. Section 1060 provides further that trademarks are assignable only with the goodwill of the business in which the mark is used. When a reason other than intent to abandon exists which would explain nonuse, no legal conclusion of intent to abandon will be presumed from nonuse. *Saratoga Vichy Spring Co., Inc. v. Lehman*, 491 F.Supp. 141 (N.D.N.Y. 1979), affirmed 625 F.2d 1037 (2d Cir. 1980).

However, a mark loses its significance as an indication of origin of plaintiff when:

(a) The sale of all equipment adapted to manufacture buttons and button parts occurs.

(b) The sale of all inventory of buttons and button parts occurs.

(c) The sale of all raw material from which buttons and button parts could be made occurs.

(d) There is a public announcement that plaintiff has discontinued manufacturing operations.

(e) All employees capable of manufacturing, shipping or inspecting buttons and button parts are discharged. And,

(f) The building which housed the offices and machines of the manufacturer is offered for sale.

Plaintiff always intended to sell its goodwill, including the use of its trademark and trade name DEFIANCE, and did not intentionally abandon same. However, an intent not to abandon is not an intent to resume. *Exxon Corp. v. Humble Exploration*, 695 F.2d 96, 102 (5th Cir. 1983).

Moreover, the transferor may possess the genuine intent to maintain the viability of the mark but if he transfers the mark without the concomitant goodwill, his good intentions will not breathe life back into the devitalized mark. Since a trademark must be appurtenant to some enterprise to which it is related, if the mark and the goodwill are separated, whether purposefully by the acts described above in the sale at the auction, or inadvertently by the release of the customer lists, the goodwill is abandoned and the underlying rights are destroyed. *Johanna Farms, Inc. v. Citrus Bowl, Inc.* , 468 F.Supp. 866. 879 (E.D.N.Y. 1978) and cases cited therein.

Defendant, Defiance-New Jersey, lawfully adopted the trademark DEFIANCE for buttons and button parts, and trade name Defiance Button Machine Company, Inc. following its loss of significance as an indication of origin in plaintiff. Since plaintiff was not in competition with defendants during the period in question, there can be no unfair competition on the part of defendants with plaintiff.

Customer lists which have been held in secret can be the basis of an action for theft of trade secrets. *Arnolds Ice Cream Company, Inc. v. Carlson*, 170 U.S.P.Q. 321 (E.D.N.Y. 1971).

To the extent that the information contained in the softwear was entitled to trade secret protection, it lost its status as a trade secret by virtue of plaintiff's failure, following the September 1982 auction, to take any action demonstrating that it still considered this material to be its property and trade secrets. Plaintiff forfeited any rights it may have had in the documentary materials removed by defendants following the September 1982 auction by virtue of its failure to take any steps to segregate these materials, which were indiscriminately commingled with the personal property sold at the auction, after being requested to do so by the defendants.

Plaintiff's former employees had an unqualified right to leave their employment and use for themselves or disclose to defendants the skills and knowledge acquired in their earlier employment as well as their knowledge of customers.

Plaintiff's former employees are free to solicit plaintiff's former customers who are openly engaged in the business or whose identities are readily or equally available to them.

That concludes the conclusions of law.

I have decided the case on a somewhat different legal proposition than urged by either party. So far as I can tell from looking at the case law, there has never been a case decided on (b) of the statute, which involves loss of significance. Indeed, the only case which I can find that touches on the subject, one involving guide dogs, decided that it factually did not occur there and consequently the interpretation of the section did not have any significance.

You have, of course, ten days to move for a new trial should you come up with any different authority.

MR. FIELDS: Your Honor, I must respectfully except to your conclusions of law. I don't see how the court reached its conclusion that a trademark lost its significance within one week after the auction sale when the whole industry did not know about the auction sale, that is, the customers involved. There is some residual goodwill that is associated with the trademark that is not dissipated almost immediately. The defendant began to use the mark. The first shipment was in November. I believe that they advertised prior to that and I really respectfully do not see how the court could determine that all of this goodwill associated with the mark was immediately dissipated —

THE COURT: I don't remember holding that.

MR. FIELDS: I think you said the mark lost its significance as a mark, which is essentially the same thing.

THE COURT: If the transaction between the plaintiff and Handy had been consummated at the time of the auction, or perhaps even shortly thereafter — I wouldn't want to say how shortly thereafter — the holding might have to be different. The fact that it got delayed for over a year because of the court battles and the pension problems is to me an important fact in

the case in that the goodwill that remained other than the mark dissipated completely within that time and all you had left was a naked mark.

MR. FIELDS: But at least initially the mark was an indicator of origin. The defendants did infringe it during the initial period of time, and although I am not that familiar with criminal law, I think you have the fruits-of-the-tree doctrine, perhaps in reverse, where they are benefiting from their initial infringement.

THE COURT: That is an issue I don't have to decide here because they weren't competing during that period, but I acknowledge to you I have decided a unique case on a unique ground and you have ten days to file any papers that you can to convince me I was wrong.

MR. SHENIER: In support of your decision, your Honor —

MR. FIELDS: Thank you, your Honor.

MR. SHENIER: In support of your decision, your Honor, one circumstance that supports you and that's this. You cannot sell inventory and all the goods and everything that is sold at auction without losing goodwill. After losing goodwill there is nothing to which the trademark can be attached.

THE COURT: What I said was that the trademark can attach to the goodwill and the goodwill has some extrinsic existence, but under the circumstances of this case where the plant was sold, the equipment was sold, the inventory was sold, the materials were sold, the employees were discharged, the building was put up for sale and the customer lists were left in the computer that was sold, the goodwill of the company rapidly disappeared. Whether it disappeared in a week or a month or a year, I am not prepared to say, but I am prepared to say that by the time they were able to conclude the sale with Handy and thereby be in a position to start manufacturing again, there was no goodwill to which the mark could any longer adhere.

I acknowledge it is a unique holding and I will be very interested to see what the Second Circuit has to say about it.

MR. SHENIER: Thank you, your Honor.

MR. FIELDS: Thank you, your Honor.

APPENDIX C

Memorandum Decision
Denying the Plaintiff's Motion for a New Trial

United States District Court

Southern District of New York

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DEFIANCE BUTTON MACHINE COMPANY,

Plaintiff,

– against –

C & C METAL PRODUCTS CORP. and DEFIANCE BUTTON MACHINE COMPANY, INC.,

Defendants.

----------X

83 Civ. 0928 (GLG)

MEMORANDUM DECISION

After a nonjury trial, the Court found in favor of the defendants. (The Findings of Fact and Conclusions of Law were made on June 19, 1984.) Now before the Court is the plaintiff's motion to set aside the judgment and to grant a new trial.

The plaintiff argues that the Court's decision results from "manifest error of law." First, the plaintiff claims that this is simply a "non-use" case and not abandonment. Second, the plaintiff claims that the court wrongfully ruled that the plaintiff had lost its good will within one week of its last sale of goods under the mark. Neither of these claims is correct. As elaborated below, this was not an instance of mere non-use. Furthermore, the Court did not hold that the mark and the good will of a manufacturer could not be sold separately from its physical assets where the two sales occur within a reasonable period of each other.

The statute on which the Court relied in finding for the defendants provides that, "[w]hen *any* course of conduct of the registrant, including acts of omission as well as comission, causes the mark to lose its significance as an indication of origin" the mark shall be deemed abandoned. 15 U.S.C. § 1127(b) (1982) (emphasis added).

The conduct of the plaintiff is an illustration of such an abandonment. The plaintiff did not simply stop using the trademark in question. The plaintiff went out of business, publicly announcing this to the entire trade. It sold all of its physical assets to the defendants; it retained no employees (and, indeed, its general manager went to work for the defendants); it gave the defendants the drawings and technical specifications for the manufacture of its goods; and it even made available its customer lists to the defendants, albeit perhaps unintentionally. For the next twenty-two months, not only did the plaintiff not use the mark, but it had no facilities with which it could use the mark.

Under these circumstances, the plaintiff had no good will to which the mark could attach and be sold upon a later, purported sale of its stock to a competitor with manufacturing capabilities. As one of the leading treatises notes:

> When a business ... symbolized by a mark ceases its activities or sales, the good will of that mark immediately begins to fade. If the sales cease long enough, there may be no good will left which a mark would symbolize. The Supreme Court has stated that: "There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed." A trademark is merely a symbol of existing good will. Thus, if for any reason, the good will of a business ... comes to an end, there is nothing left for a mark to symbolize. Such a mark should be officially declared "abandoned." If there is no good will or a reasonable prospect of it, a "trademark" symbolizes nothing.
>
> When a company permanently goes out of business, good will is ended and the marks abandoned. No rights

> arise by succession by a later sale of good will and/or trademarks as a separate item.

J.T. McCarthy, *Trademarks and Unfair Competition*, § 17.3 at 773-74 (2d ed. 1984) (footnotes omitted); *accord, Browning King Co. of New York v. Browning King Co.*, 176 F.2d 105, 107 n.3 (3d Cir. 1949); *Hough Manufacturing Corp. v. Virginia Metal Industries, Inc.*, 453 F. Supp. 496, 500 (E.D. Va. 1978); 3 R. Callmann, *The Law of Unfair Competition Trademarks and Monopolies*, § 19.61 at 244-45 (4th ed. 1983).

As noted in the case of *Reconstruction Finance Corp. v. J.G. Menihan Corp.*, 28 F. Supp. 920 (W.D.N.Y. 1939):

> The acts of the plaintiff itself were sufficient to destroy the business and good-will. ... Everything that is necessary to the manufacture of that product is gone and as far as the proof shows, irrevocably so. The most essential elements, the lasts, dies and patterns were sold by the plaintiff itself who now seeks to have the trade protected.
>
> ... There is no proof that the plaintiff retained in connection with its claimed good-will even the designs or measurements or enough to preserve the essential idea of the corrective features of Arch Aid shoes. No vestige of the old business remains except the factory building. The entire personnel of the old company is gone. The factory has long since been closed. The business has been discontinued. The elements necessary to create Arch Aid shoes are gone. What is left does not constitute a business to which good-will, trade-marks and trade-names may attach.
>
> ....
>
> ... There was no abandonment in the strict sense of the term for abandonment presupposes the ownership of trade-marks and trade-names which can only be in connection with an existing business. For that reason

> the cases regarding abandonment and the intention to abandon the use of trade-marks and trade-names are inapplicable here. The plaintiff's acts amounted to more than abandonment. They amounted to the destruction of what was necessary to the existence of a businesss to which good-will, trade-marks and trade-names might attach.

Id. at 922-23.[1]

The plaintiff presents several arguments to rebut the conclusion that there was no good will to which the mark could attach. The plaintiff first argues that there was "residual good will." There was, however, no proof of any such residual good will except that of the mark itself.

The plaintiff now argues that the products (primarily tufted buttons and button parts) were fungible. The evidence indicated, however, that the specifications, dies, and know-how involved in producing the original products resulted in a distinctive item. Also, the products were sold to the garment and furniture trades, and these purchasers were not likely deceived into believing that products produced by another manufacturer, which had simply bought the mark, were in fact the same product. Even if the use of the mark might result in some purchasers believing they were buying the same product as had been previously manufactured, this is certainly not the sort of property interest that the courts should be protecting.

The plaintiff also argues that the legislative history and case law indicate that the use of section 1127(b) should be restricted to instances in which the mark has become generic, or there has been uncontrolled licensing, or there was an assignment without a transfer of good will. We note initially that there is no need to go to legislative history when the language of the statute is clear. The language of the statute in question refers to "*any* course of conduct" and not merely those involving generic marks, uncontrolled licensing, etc. The Court previously acknowledged that the few cases that have considered the applicability of subsection (b) did not involve a similar factual pattern. However, the

Court found that the acts of the plaintiff – selling all of its physical business assets and discharging all of its employees – quickly diminished the value of its good will. Thus, when the present stockholders acquired the trademark, there was no good will transferred with it. In conclusion, this is equivalent to an assignment of the trademark without a transfer of good will.[2] The facts giving rise to this case, therefore, fall squarely within a literal reading of subsection (b). Consequently, the motion to set aside the judgment is denied in all respects.

SO ORDERED.

Dated: New York, N.Y.
August 22, 1984

GERARD L. GOETTEL
U.S.D.J.

FOOTNOTES

[1] The plaintiff argues that *Reconstruction Finance* is not authority in this case since it was decided prior to the present revision of the Lanham Act. However, in this regard, the Lanham Act, 15 U.S.C. § 1127, merely codified the existing law. *See Johanna Farms, Inc. v. Citrus Bowl, Inc.*, 468 F. Supp. 866, 878 (E.D.N.Y. 1978).

[2] The plaintiff's reliance on *Sterling Brewers, Inc. v. Schenley Industries, Inc.*, 441 F.2d 675 (C.C.P.A. 1971), is misplaced. The brewery business had not been separately sold. The agreement to sell the trademark rights and to sell the assets occurred on the same day. Consequently, there was no naked assignment of the mark since the business was intact at the time of the assignment.